Supreme Court, U.S.
FILED
JAN 26 2010
OFFICE OF THE CLERK

No. 09-702

In the Supreme Court of the United States

ACUSHNET COMPANY,
Petitioner,

v.

CALLAWAY GOLF COMPANY,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITIONER'S REPLY BRIEF

HENRY C. BUNSOW
HOWREY LLP
525 Market Street,
Suite 3600
San Francisco, CA 94105
(415) 848-4900

JOSEPH P. LAVELLE
HOWREY LLP
1299 Pennsylvania Ave., NW
Washington D.C. 20004
(202) 783-0800

RICHARD L. STANLEY
Counsel of Record
HOWREY LLP
1111 Louisiana St.,
25th Floor
Houston, TX 77002
E-mail: stanleyr@howrey.com
(713) 787-1400

January 26, 2010

Attorneys for Petitioner

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

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ARGUMENT

This case is a clear example of the Federal Circuit's practice of affirming a jury verdict on the ultimate legal issue of obviousness under 35 U.S.C. § 103 merely by affirming one or more implicit factual findings that the jury was presumed to have made. This approach abdicates the court's duty to decide patent validity as a matter of law, as required by *Graham v. John Deere Co.*, 383 U.S. 1, 17-18 (1966), and *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007). Until that flawed methodology is reviewed and corrected, this Court's standards resolving the ultimate question of obviousness will remain unfulfilled.

Callaway's opposition is most telling for what it does not say. Callaway cannot refute the Federal Circuit's admission in *Kemin Foods, L.C. v. Pigmentos Vegetales Del Centro S.A.*, 464 F.3d 1339, 1344 n.2 (Fed. Cir. 2006), that its decisions "[apply] the substantial evidence standard to general verdicts on obviousness." Petition, at 25. As explained at Petition 28-32, a jury's ultimate § 103 determination should not be given such deference, and is actually entitled to no deference at all. Instead, the "substantial evidence" standard should apply only when reviewing the factual findings implicit in the jury's verdict, not to the verdict itself. On that point as well, Callaway offered no response.

Callaway also did not dispute that Federal Circuit decisions routinely allow one or more implicit factual findings by the jury to be dispositive of the ultimate legal issue. See Petition, at 24-28 (citing

Kinetic Concepts, Inc. v. Blue Sky Med. Group, Inc., 554 F.3d 1010 (Fed. Cir. 2009) (affirming a nonobviousness judgment upon upholding an implicit jury finding that the prior art did not disclose one disputed claim limitation); *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 582 F.3d 1288 (Fed. Cir. 2009) (affirming denial of JMOL on five sets of disputed claims upon upholding implicit jury findings that a single claim element in each set was in the prior art)). In such cases, like this one, the Federal Circuit never independently decided the ultimate legal question of validity under all the facts as established by the affirmed findings and by the undisputed facts not resolved by the jury.

Callaway cites the above cases only for their general standard of review recited in virtually every Federal Circuit opinion involving obviousness. See Resp. Br. 2-3, 18-19 (and cases cited). Callaway suggests that as long as the Federal Circuit mechanically recites that standard, it does not matter what the Federal Circuit actually does when supposedly applying it. That cannot be correct. *Cf. Wellons v. Hall*, 558 U.S. ___, No. 09-5731, 2010 WL 154825, at *2 n.3 (2010) (noting it was not dispositive that the court of appeals' opinion began with a statement of the standard of review that was not followed). The Federal Circuit's flawed methodology cannot be excused merely because its opinions initially recite the applicable standard before completely deviating from it.

The need for a judicial review methodology for § 103 verdicts that correctly applies this Court's requirements in *Graham* is not merely a matter of

semantics. The Federal Circuit's truncated approach ignores the distinct steps of reviewing each implicit jury factual finding and then independently deciding the ultimate legal conclusion based on the undisputed facts and the findings supported by substantial evidence. This Court's guidance is needed not to address what the Federal Circuit is describing as its methodology for resolving obviousness, but to correct what that court is doing (and allowing district courts to do) by letting general jury verdicts to control the legal determination of obviousness under § 103, thus abdicating the judicial role required under *Graham*

I. THE FEDERAL CIRCUIT'S FLAWED METHODOLOGY FOR REVIEWING JURY § 103 VERDICTS WARRANTS THIS COURT'S IMMEDIATE REVIEW

As in *Kinetics Concepts* and *Fersenius*, the Federal Circuit's opinion in this case addressed only one implicit jury finding concerning a single difference with the prior art.[1] App. 16a-20a. Upon

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[1] The Federal Circuit reviewed only whether substantial evidence supported finding that a polyurethane cover with a hardness below Shore D 64 was not shown in the prior art. App. 16a-20a. Contrary to Resp. Br. 4 & 21, the Federal Circuit did not review the evidentiary support for or legal significance of any other implicit jury finding challenged by Acushnet regarding unpredictability, long-felt need, and commercial success. Moreover, the Federal Circuit never independently addressed whether the alleged secondary considerations, particularly the commercial success of Acushnet's own Pro V1 ball, warranted any "legal inference" of nonobviousness under *Graham* in the absence of a legitimate nexus to the claimed invention. See Petition, 37-38.

holding that a reasonable jury could have found such a difference, the Federal Circuit's JMOL analysis simply stopped. That review methodology fails on two levels.

First, the Federal Circuit did not review the jury's implicit findings on all of the disputed underlying factual issues, but instead affirmed the judgment merely because one finding could have been reasonably reached (and the Federal Circuit clearly labored mightily just to affirm that one finding). Second, the Federal Circuit made no attempt to draw its own independent legal conclusion from the supported findings and the undisputed facts. On its face, that is not even what its own articulated standard of review requires.

Callaway's only other attempt to justify the Federal Circuit's review methodology was to cite its recent decision in *i4i Limited Partnership v. Microsoft Corp.*, 589 F.3d 1246 (Fed. Cir. 2009), as allegedly using the correct approach for reviewing § 103 jury verdicts. See Resp. Br. 3-4, 19-20. However, the *i4i* opinion suffers from the exact same analytical infirmities.

According to Callaway, the Federal Circuit in *i4i* "did exactly what Acushnet claims the Federal Circuit consistently fails to do—decide the ultimate legal question of obviousness, separate and apart from assessing the sufficiency of the evidence supporting any explicit or implicit findings on the underlying factual *Graham* factors." Resp. Br. 3. As alleged support, Callaway twice quotes the following passage from the *i4i* opinion:

> In this case, Microsoft has waived its right to challenge the factual findings underlying the jury's implicit obviousness verdict because it did not file a pre-verdict JMOL on obviousness. ... *Accordingly, we do not consider whether the evidence presented at trial was legally sufficient to support the jury's verdict.* Our review is limited to determining whether the district court's legal conclusion of nonobviousness was correct, based on the presumed factual findings.

Resp. Br. 3, 20 (quoting *i4i*, 589 F.3d at 1261) (emphasis added by Acushnet). Yet, as the sentence emphasized above confirms, the Federal Circuit again confused the factual and legal aspects of the jury's § 103 verdicts. Despite Microsoft's waiver, the Federal Circuit should not have foreclosed itself from reviewing the jury's ultimate legal conclusion. See Petition, at 30-32. That, however, is what the Federal Circuit did.

Any waiver arising from a party's failure to file a pre-verdict JMOL forecloses an appellate challenge only to whether the evidence was legally sufficient to support the jury's factual findings on the disputed underlying factors (e.g., level of skill, scope and content of the prior art, differences with the prior art, etc.). However, such waiver does not extend to the ultimate legal question of obviousness. As held in *Graham*, 383 U.S. at 17-18, "the ultimate question of patent validity is one of law." A jury makes factual findings based on the evidence, but the legal conclusion then must be drawn from the findings. Once a jury's findings are reviewed for

substantial evidence, the court renders its own legal conclusion based on the accepted findings and the undisputed facts. Even if review of the jury's findings is waived, the legal conclusion must still be separately and independently drawn by the court.

Rather than making its own validity conclusion based on the jury's findings, the Federal Circuit in *i4i* merely stated that the scope of the prior art and a motivation to combine were disputed factual questions, and held that the jury's verdict meant that the jury found differences with the prior art and that one of ordinary skill would not have been motivated to combine the cited references. 589 F.3d at 1261. Without more, the Federal Circuit then declared that "[i]n light of the jury's implicit factual findings, Microsoft has not established that the asserted claims would have been obvious." *Id.* at 1262. Just as in this case, the Federal Circuit in *i4i* treated the jury's factual findings as being dispositive of the legal issue.

Because the Federal Circuit never did its own legal analysis, the *i4i* opinion is no different than the other Federal Circuit decisions cited by Acushnet. It uses the same truncated review methodology that allowed the jury's factual findings to be dispositive of the ultimate legal conclusion in *Kinetic Concepts*, *Fresenius*, and this case. Not surprisingly, the Federal Circuit's *i4i* decision repeatedly cites its prior *Kinetic Concepts* opinion. 589 F.3d at 1261; see Petition, at 26. Rather than indicating that the Federal Circuit sometimes does it right, the *i4i* decision confirms that the Federal Circuit is still reviewing § 103 verdicts incorrectly.

II. THIS CASE IS AN EXCELLENT VEHICLE FOR EXAMINING THE FEDERAL CIRCUIT'S REVIEW METHODOLOGY FOR § 103 VERDICTS

Callaway predictably asserts that this case is not an appropriate vehicle for this Court's review. Resp. Br. 16. None of Callaway's reasons should dissuade this Court's review of this case at this time.

First, as shown, the Federal Circuit's flawed review methodology is not unique to this case, but has been repeatedly applied in numerous cases in that court and by the district courts subject to its precedent. Because that methodology affects every patent case involving § 103 that is tried to a jury, Acushnet's petition is not a case-specific complaint, but one with broad significance and importance to virtually all litigated patent jury cases.

Second, the fact that this case has been remanded for a new trial should not prevent this Court's immediate review. Acushnet's challenge is to the Federal Circuit's flawed methodology for reviewing jury § 103 verdicts. Acushnet's petition squarely presents that issue. Indeed, this case was remanded only because the district court's and the Federal Circuit's unduly deferential and abbreviated review caused them to err in not granting JMOL for Acushnet, which would have reconciled the inconsistent verdicts without a new trial.

Because the review methodology directly led to those JMOL denials, the procedural posture here is no different than if the Federal Circuit had affirmed

the denial of JMOL without a remand. Moreover, this Court's review will provide much needed guidance for all future patent cases, not just this one. As explained at Petition 38, the same issues will arise after the retrial, regardless of which party prevails.

The district court improperly applied the "substantial evidence" standard of review following the original trial. See Petition 16-18; App. 56a-69a. Given that its prior JMOL analysis was affirmed, Callaway's suggestion (Resp. Br. 16) that the district court would be willing to alter that approach on remand seems most unlikely. Moreover, until this Court reviews the Federal Circuit's methodology, numerous other patent cases will surely be incorrectly reviewed because there is also no reason to believe that the Federal Circuit will revise its methodology on its own.

Third, this case provides a clear context in which to address the Federal Circuit's § 103 review methodology. Here, the patents-in-suit are related and the asserted claims were held to be patentably indistinct. App. 26a-28a. Compared to many patent cases, this golf ball technology is understandable, making it easier to focus on the legal issues presented. Moreover, the issues presented are case dispositive in that a grant of JMOL of invalidity for Acushnet under the proper review methodology would end this litigation.

Most importantly, only the Federal Circuit's review methodology is being challenged by Acushnet's petition. That has not been true for other

recent Federal Circuit obviousness decisions. No petition to this Court on obviousness is likely forthcoming in *Fresenius* because the patentee's injunction was upheld on other claims, and only the defendant sought rehearing. Faced with a $290 million judgment, Microsoft's petition for rehearing in the *i4i* case raised only damages, willfulness and injunction issues, and any future petition to this Court will surely not be limited to obviousness.[2] Thus, this case will provide this Court with the clearest record for reviewing this issue.

While Callaway argues that the recently-denied petition in *Medela AG v. Kinetic Concepts, Inc.*, No. 09-198 (denied Nov. 16, 2009), raised "the exact same complaint" (Resp. Br. 16), that assertion is demonstrably incorrect. Although the "problem" in *Kinetic Concepts* was the same (i.e., affirming a jury's § 103 verdict merely upon upholding one implicit finding of a difference with the prior art), Acushnet's explanation for the problem and its proposed solution are very different.

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[2] In *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), a different Microsoft petition for rehearing is pending in the Federal Circuit challenging a nonobviousness affirmance based on this Court's observation in *KSR* that the presumption of validity seems "much diminished" where prior art not considered by the PTO is advanced during litigation. See 550 U.S. at 426. However, that question is subsidiary to the broader issues presented here because it only implicates the burden for proving the underlying factual issues concerning such "new" art, not whether a court must review all the implicit findings and then draw its own ultimate legal conclusion from all the established facts.

The petition in No. 09-198 sought to eliminate juries from deciding obviousness issues entirely, an extreme position that both implicated the Seventh Amendment and one that likely had not been preserved. Here, Acushnet's position is not that juries should be barred from deciding obviousness (at least, the disputed factual issues) but that the Federal Circuit is not reviewing the factual and legal components of the resulting § 103 jury verdicts correctly. That is not the same question presented by the petition in *Kinetic Concepts*, and does not implicate either the Seventh Amendment or any issue of waiver.

Given that Acushnet's petition closely followed in time the petition in *Kinetic Concepts*, and that this case was closely followed by the similarly-flawed § 103 analyses in *Fresenius* and *i4i*, this Court should discern that these issues are widespread, increasingly occurring, and not likely to be resolved without this Court's review. Consistent with *Graham* and *KSR*, this Court should grant this petition to ensure that the ultimate determination of patent validity remains a legal issue that is correctly and independently decided by the courts.

Perhaps seeking any way to forestall this case from being used to address the indisputable errors in the Federal Circuit's review methodology, Callaway asserts that there were no findings on the *Graham* factors to support a determination of obviousness. Resp. Br. 21. That assertion is meaningless where a jury has returned only a general § 103 verdict because, without any jury interrogatories, the jury's underlying (and implicit) factual findings are

presumed as consistent with the verdict. Here, most of the *Graham* factors, including level of skill and the scope and the closeness of the prior art, were not even disputed at trial.

Even accepting the one difference with the prior art found by the jury, the relevant legal question was whether it would have been obvious to use a polyurethane cover of the specified hardness on well-known prior art three-piece balls *after* a 1994 patent to Wu disclosed a new soft, castable polyurethane material specifically for golf ball covers. Callaway cannot dispute that the inventor amended his applications in 1995 to disclose thin polyurethane covers after Wu's patent issued. Callaway cannot dispute that multiple ball manufacturers began trying such thin polyurethane covers over existing ball designs. Even now, Callaway relies on the "thin, cast polyurethane cover" for patentability. Resp. Br. 11. Callaway's problem is its claims cover any polyurethane cover, not just the thin polyurethane covers enabled by Wu's prior art patent.

Callaway argues that the patents-in-suit describe a specific ball with specific properties (Resp. Br. 9) but the claims are much broader. Actually, the patents-in-suit claim nearly all conceivable combinations of polyurethane cover thicknesses, inner cover thicknesses, and any kind of core—without teaching which of those countless combinations would work. On the other hand, Callaway also argues that the claims did not need to recite any unique, unexpected, or critical performance criteria. See Resp. Br. 13 n.4. If the

asserted claims had included such limitations, those claims would not have been enabled. By omitting such limitations (because the inventor never discovered how to achieve them), the claims cover nothing more than a predictable and "obvious to try" combination of prior art polyurethane and well-known three-piece ball designs. See *KSR*, 550 U.S. at 421.

This case illustrates the dangers of courts according too much deference to a jury's resolution of the fundamental legal issue of invalidity. Overbroad patent claims are routinely asserted in patent cases, but juries do not know that. Because Acushnet's accused Pro V1 balls fell within the overbroad scope of Callaway's asserted claims, Acushnet was left to defend on grounds of invalidity. At trial, Callaway used the PTO's issuance of the patents and Acushnet's concession of infringement to mislead the jury into accepting that the asserted claims covered only the particular configuration of Acushnet's accused Pro V1 ball rather every possible golf ball configuration having any polyurethane outer cover as recited in the claims.

That is why the ultimate question of patent invalidity is and must remain a matter to be decided by the court, even in jury cases. By granting this petition, this Court can ensure that its legal standards for resolving obviousness are properly applied while providing overdue guidance to the Federal Circuit, the district courts, and all patent litigants applicable to all future jury trials involving invalidity disputes under § 103.

CONCLUSION

The petition for writ of certiorari should be granted.

Respectfully submitted.

RICHARD L. STANLEY
Counsel of Record
HOWREY LLP
1111 Louisiana St.,
25th Floor
Houston, TX 77002
(713) 787-1400

HENRY C. BUNSOW
HOWREY LLP
525 Market Street,
Suite 3600
San Francisco, CA 94105
(415) 848-4900

JOSEPH P. LAVELLE
HOWREY LLP
1299 Pennsylvania Ave., NW
Washington D.C. 20004
(202) 783-0800

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